

Condensed Consolidated Interim Financial Statements

Three and six month periods
ended March 31, 2015 and 2014

(expressed in Canadian Dollars)



Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by, and are the responsibility of, the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Notice to Reader

BLUMETRIC ENVIRONMENTAL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(in Canadian dollars) (unaudited)

		March 31 2015	September 30 2014
	Notes	\$	\$
ASSETS			
Current assets			
Accounts receivable	3	5,528,302	5,038,457
Unbilled revenue		618,328	2,292,502
Inventory		720	1,549
Prepaid expenses		646,540	102,106
Investment held for sale		20,596	33,626
		6,814,486	7,468,240
Non-current assets			
Property, plant and equipment		1,644,094	2,355,939
Intangible assets		794,006	1,011,444
Investment accounted for using the equity method	4	353,818	378,104
Long term investment		11,085	11,085
Goodwill		1,592,095	1,592,095
Total assets		11,209,584	12,816,907
LIABILITIES			
Current liabilities			
Bank indebtedness		390,544	180,626
Credit facilities	5	690,000	780,000
Trade and other payables	6	4,037,404	5,358,891
Deferred revenue		1,106,172	1,346,836
Note, advances and loans payable		517,191	517,737
Obligations under finance leases		3,770	3,698
Current portion of long-term debt	7	1,059,492	1,655,244
		7,804,573	9,843,032
Non-current liabilities			
Obligations under finance leases		2,777	4,830
Long-term debt	7	1,738,677	1,824,125
Convertible debenture		1,285,754	1,231,949
Due to shareholders		269,531	269,531
Contingent consideration		156,282	156,282
Total liabilities		11,257,594	13,329,749
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital		4,629,424	4,629,424
Contributed surplus and other equity	8	493,759	388,771
Deficit		(5,171,193)	(5,531,037)
Total equity (deficit)		(48,010)	(512,842)
Total liabilities and shareholders' equity (deficit)		11,209,584	12,816,907

The accompanying notes are an integral part of these condensed consolidated interim financial statements

APPROVED BY THE BOARD

Roger Woeller, Director_____
Murray Malley, Director

BLUMETRIC ENVIRONMENTAL INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

For the six months ended March 31, 2015 and 2014

(in Canadian dollars) (unaudited)

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total equity (deficit) \$
Balance at October 1, 2014		25,191,656	4,629,424	388,771	(5,531,037)	(512,842)
Share based compensation	8	-	-	104,988	-	104,988
Net income and comprehensive income for the period		-	-	-	359,844	359,844
Balance at March 31, 2015		25,191,656	4,629,424	493,759	(5,171,193)	(48,010)

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings \$	Total equity \$
Balance at October 1, 2013		25,191,656	4,629,424	186,606	1,407,700	6,223,730
Share based compensation	8	-	-	120,508	-	120,508
Net income and comprehensive income for the period		-	-	-	(966,567)	(966,567)
Balance at March 31, 2014		25,191,656	4,629,424	307,114	441,133	5,377,671

The accompanying notes are an integral part of these condensed consolidated interim financial statements

BLUMETRIC ENVIRONMENTAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and six months ended March 31, 2015 and 2014

(in Canadian dollars, except the number of shares) (unaudited)

	Notes	For the three months ended March 31		For the six months ended March 31	
		2015	2014	2015	2014
		\$	\$	\$	\$
Revenue	12	7,781,437	6,618,428	15,560,801	14,243,199
Cost of goods sold	9	6,197,397	5,675,368	12,252,130	11,670,603
Gross profit		1,584,040	943,060	3,308,671	2,572,596
Operating expenses:					
Selling, general and administrative expenses	9	1,387,875	1,792,196	2,823,170	3,261,926
Loss (gain) on disposal of property plant and equipment		(247,481)	(1,975)	(247,481)	8,886
Total operating expenses		1,140,394	1,790,221	2,575,689	3,270,812
Operating income		443,646	(847,161)	732,982	(698,216)
Share of net loss of an associated company	4	(13,357)	(9)	(24,286)	(12,433)
Finance costs	9	(184,215)	(137,376)	(348,852)	(255,918)
Net income (loss) and comprehensive income (loss) for the period		246,074	(984,546)	359,844	(966,567)
Net income per share:					
Basic		\$0.01	(\$ 0.03)	\$0.01	(\$ 0.03)
Diluted	11	\$0.01	(\$ 0.03)	\$0.01	(\$ 0.03)
Weighted average number of shares outstanding:					
Basic		25,191,656	28,765,226	25,191,656	28,765,226
Diluted	11	25,191,656	28,765,226	25,191,656	28,765,226

The accompanying notes are an integral part of these condensed consolidated interim financial statements

BLUMETRIC ENVIRONMENTAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the three and six months ended March 31, 2015 and 2014
(in Canadian dollars) (unaudited)

	Notes	For the three months ended		For the six months ended	
		March 31		March 31	
		2015	2014	2015	2014
		\$	\$	\$	\$
Cash flows from operating activities					
Net income for the period		246,074	(984,546)	359,844	(966,567)
Non-cash items:					
Depreciation of property, plant and equipment		111,915	124,292	249,704	259,200
Amortization of intangible assets		102,114	85,079	217,438	170,744
Loss (gain) on disposal of property, plant and equipment		(247,481)	(1,975)	(247,481)	8,886
Interest accretion on convertible debenture		26,902	24,788	53,805	49,575
Share of net loss of an associated company	4	13,357	9	24,286	12,433
Unrealized loss (gain) on investment held for sale		-	-	13,030	-
Share-based compensation	8	50,198	7,010	104,988	120,508
Changes in working capital items	10	(821,055)	1,184,716	(921,427)	1,579,311
Net cash generated by operating activities		(517,976)	439,373	(145,813)	1,234,090
Cash flows from investing activities					
Acquisition of property, plant and equipment		-	(801,500)	(33,577)	(805,358)
Acquisition of intangible assets		-	(7,375)	-	(9,650)
Proceeds on disposal of property plant and equipment		743,199	4,000	743,199	4,000
Net cash used in investing activities		743,199	(804,875)	709,622	(811,008)
Cash flows from financing activities					
Increase (decrease) in note, advances and loans payable		(5,603)	165,000	(546)	165,000
Issuance of long term debt		-	700,000	-	700,000
Repayment of long term debt		(586,589)	(124,187)	(681,200)	(238,224)
Repayment of finance leases		(990)	(845)	(1,981)	(12,558)
Increase (decrease) in use of credit facilities		210,000	750,000	(90,000)	220,000
Net cash used in financing activities		(383,182)	1,489,968	(773,727)	834,218
Net change in cash and cash equivalents		(157,959)	1,124,466	(209,918)	1,257,300
Bank indebtedness – Beginning of period		(232,585)	(1,125,637)	(180,626)	(1,258,471)
Bank indebtedness – End of period		(390,544)	(1,171)	(390,544)	(1,171)
Supplementary Information					
Interest paid - included in operating activities		120,537	90,781	236,556	112,036
Taxes paid - included in operating activities		-	-	-	-

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. Nature of Operations

BluMetric is an integrated product and service organization providing sustainable solutions to complex environmental issues in Canada and abroad. The Company serves clients in many industrial sectors, and at all levels of government, both domestically and internationally.

BluMetric focuses on two main areas:

- professional consulting services on environmental earth sciences and engineering, contaminated site remediation, water resource management, industrial hygiene, occupational health and safety, and renewable energy; and
- water and wastewater design-build and pre-engineered product solutions.

The head office of the Company is located at 3108 Carp Road, Ottawa, Ontario, Canada K0A 1L0. The Company's common shares are listed on the Toronto Venture Exchange ("TSX.V") in Canada.

2. Basis of Presentation and Summary of Accounting Policies

a. Going concern

These condensed consolidated interim financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption.

BluMetric has incurred significant operating losses over its past two fiscal years and remains in violation of its debt covenants which triggers a cross default clause and results in certain long-term debt balances being reclassified to current debt. As a result of this reclassification, the Company's working capital at March 31, 2015 is in a deficit position of \$1.0 million.

The Company is actively pursuing a new financing arrangement that it anticipates will provide greater cash availability than its current credit facility. The Company's ability to continue operating on a sustainable basis is dependent upon securing this financing, generating sufficient cash from its operations to satisfy its liquidity requirements, and continuing to satisfy current creditors. The Company continues to report significant stable revenues with improving margins and is driving profitability by continuing to control costs and by ongoing adjustments to its operations. However, there can be no assurance it will be successful in these efforts.

If the going concern assumption was not appropriate for these financial statements, then adjustments would likely be necessary in the carrying amounts of assets and liabilities, revenues and expenses, the accumulated deficit and the classifications used in the condensed consolidated interim statement of financial position. These adjustments could be material.

b. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements follow the same accounting policies as the Company's most recent annual financial statements for the year ended September 30, 2014, which can be found, along with other information, at www.sedar.com.

These condensed consolidated interim financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended September 30, 2014.

c. Authorization of Financial Statements

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 28, 2015.

d. Presentation and Functional Currency

The Company's presentation and functional currency is the Canadian dollar, which is also the functional currency of the subsidiary.

e. Basis of Measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

The accounting policies set out in the Company's most recent annual financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements. As such, it should be read in conjunction with the consolidated annual financial statements and related note disclosures for the year ended September 30, 2014.

3. Accounts Receivable

	March 31, 2015	September 30, 2014
	\$	\$
Trade receivables	6,360,197	5,521,094
Other receivables	330,297	428,922
Allowance for doubtful accounts	(1,162,192)	(911,559)
	5,528,302	5,038,457

All of the Company's trade and other receivables have been reviewed for indications of impairment. An allowance for doubtful accounts has been established for any trade receivable found to be impaired.

4. Investment Accounted for using the Equity Method

The Company has an investment in Wasdell Falls Power Corporation which it accounts for under the equity method. During the six months ended March 31, 2015, the Company recognized losses of \$24,286 (March 31, 2014 - \$12,433). Wasdell Falls Power Corporation has not yet achieved the commencement of operations. Accordingly, they have not generated any revenues to date.

5. Credit Facilities

As at March 31, 2015, short-term bank credit facilities consisted of an operating line of credit in the amount of \$2,000,000 (September 30, 2014 - \$2,000,000).

At March 31, 2015, the Company had drawn \$690,000 (September 30, 2014 - \$780,000) on its operating line of credit, which carries a floating rate of interest of prime plus 2.25%, is payable on demand and is secured by a general security agreement over the Company's assets.

At March 31, 2015, the Company had two outstanding letters of guarantee of US \$306,800 which were carved out of the operating line of credit. These letters expire on December 31, 2015.

The Company has certain covenants in accordance with its banking agreement which include maintaining a debt to service ratio in excess of 1.2:1 and maintaining, on a quarterly basis, a minimum tangible net worth of \$2.4 million. As at March 31, 2015, the Company was in default of its covenants (see Note 2(a) – Going Concern).

6. Trade and Other Payables

	March 31, 2015	September 30, 2014
	\$	\$
Trade payables	2,115,564	3,231,681
Salaries and benefits payable	582,493	618,838
Other accrued liabilities and payables	1,339,347	1,508,372
	4,037,404	5,358,891

Provisions in the amount of \$18,373 (September 30, 2014 - \$18,373) are included in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

As at December 31, 2014, other accrued liabilities and payables includes amounts owing to key management personnel of \$nil (September 30, 2014 - \$27,164).

7. Long-Term-Debt

	Mar 31, 2015 \$	Sept 30, 2014 \$
Mortgage, bearing interest at 7.99%, repayable in monthly principal instalments of \$8,083 plus interest, due July 16, 2016, secured by a collateral mortgage on land and building with a carrying value of \$405,020.	1,002,165	989,809
Mortgage, bearing interest at BDC Floating Base Rate (5.0% as at March 31, 2015) plus 2.0%, repayable in monthly principal instalments of \$3,900 plus interest, due June 15, 2029, secured by a collateral mortgage on land and building with a carrying value of \$791,922.	666,900	690,300
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$3,022 plus interest, due April 2023, secured by a charge on land and building with a carrying value of \$492,146.	-	311,289
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$1,611 plus interest, due March 2023, secured by a charge on land and building with a carrying value of \$234,404.	154,666	164,333
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$3,325 plus interest, due December 2014, secured by a general security agreement.	-	9,975
Bank loan, bearing interest at prime plus 2.5% per annum, repayable in monthly principal instalments of \$1,716 plus interest, due June 2016, secured by a general security agreement.	-	36,027
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$1,763 plus interest, due November 2015, secured by a general security agreement.	-	24,681
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$2,178 plus interest, due November 2016, secured by a general security agreement.	38,730	56,638
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$1,992 plus interest, due July 2017, secured by a general security agreement.	55,788	67,742
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$9,896 plus interest, due March 2017, secured by a general security agreement.	-	221,875
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$2,693 plus interest, due May 2018, secured by a general security agreement.	102,347	118,507
Ford Credit loan, bearing interest at prime, payable in monthly instalments of \$3,190, due May 2016 and secured by a general security agreement.	29,067	47,004
Restructured trade debt ⁽¹⁾	748,506	741,188
Total	2,798,169	3,479,368
Current portion of long-term debt	1,059,492	1,655,244
Long-term portion of long-term debt	1,738,677	1,824,124

- (1) On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of \$958,285. Of this amount, \$450,452 is owed to related parties. The agreement requires the Company to repay this amount on a monthly basis, with blended payments of \$22,947 principal and interest at 7% per annum such that repayment in full will be effected in four years. A gain on restructuring was recognized in the thirteen month period ended September 30, 2013 of \$133,754. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank.

At March 31, 2015, the Company is in default of its debt covenants (see Note 5), which has triggered a cross default on its bank loans. Consequently, the long term debt portion attributable to these loans has been reclassified to current liabilities and is now payable on demand.

8. Shareholders' Equity (Deficit)

Share Options

Activity in the share option plan is summarized as follows:

	March 31, 2015		March 31, 2014	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of period	2,081,775	1.00	455,667	1.00
Granted	-	-	1,830,800	0.50
Exercised	-	-	-	-
Forfeited	(54,867)	0.52	(188,859)	0.55
Outstanding, end of period	2,026,908	0.61	2,097,608	0.71
Exercisable, end of period	1,420,502	0.65	764,757	0.68

Share-Based Compensation

During the six months ended March 31, 2015, the Company recognized \$104,988 (March 31, 2014 - \$120,508) in compensation expense related to the vesting of previously granted stock options.

Warrants

On June 27, 2013 BluMetric issued 131,875 broker compensation warrants in connection with the private placement of 1,430,000 unsecured convertible debenture units. Each warrant is exercisable into one common share of the Company, at a price of \$0.60 per share, until June 27, 2015. The fair value of these warrants was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: share price on date of grant - \$0.40; dividend yield - 0%; volatility of 116% based on the historical daily volatility of the Company's common shares between October 1, 2011 and September 30, 2013; risk free interest rate - 2%; and an expected life of 2 years. The resulting fair value

of the warrants was estimated as \$26,375. The value of these warrants has been reflected as a reduction in the proceeds from the issuance of both the debt and equity components of the debenture.

There has been no activity related to these warrants since their issuance and they remain unexercised.

9. Information Included in the Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended March 31		For the six months ended March 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee Benefit Expenses				
Salaries and short term benefits	2,655,865	3,508,928	5,463,928	6,838,611
Share based compensation cost	50,197	7,010	104,987	120,508
Pensions - defined contribution plans	87,066	90,673	169,979	181,977
Employee group benefit expense	132,443	148,023	318,069	303,700
	<u>2,925,571</u>	<u>3,754,634</u>	<u>6,056,963</u>	<u>7,444,796</u>
Finance Costs				
Interest on convertible debentures	59,078	56,962	118,156	103,240
Interest on debt restructuring	26,481	9,574	46,560	21,641
Interest on bank loans	10,238	17,233	21,294	42,321
Other interest and financial expense	88,759	53,626	163,229	89,441
Interest income	(341)	(19)	(387)	(706)
	<u>184,215</u>	<u>137,376</u>	<u>348,852</u>	<u>255,937</u>
Other elements of expenses				
Foreign exchange	27,948	(56,437)	(13,510)	(61,011)

10. Changes in Working Capital Balances

	For the three months ended March 31		For the six months ended March 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Accounts receivable	800,058	462,017	(489,845)	1,493,320
Inventory	829	12,046	829	12,046
Unbilled revenue	837,481	(260,408)	1,674,174	593,166
Prepaid expenses	(495,547)	44,628	(544,434)	(20,401)
Investment tax credits	-	-	-	42,240
Trade and other payables	(774,487)	968,857	(1,321,487)	(571,009)
Deferred revenue	(1,189,839)	(42,424)	(240,664)	29,949
	<u>(821,505)</u>	<u>1,184,716</u>	<u>(921,427)</u>	<u>1,579,311</u>

11. Earnings per Share

For the three and six months ended March 31, 2015 and March 31, 2014, outstanding options, warrants and convertible debentures were not included in the computation of diluted loss per share because to have done so would have been anti-dilutive.

12. Segmented Disclosure

Revenue

The Company currently operates under two reportable segments as follows:

	For the three months ended March 31		For the six months ended March 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Professional Services	3,822,226	4,615,389	9,556,551	9,629,241
Water Systems	3,959,211	2,003,039	6,004,250	4,613,958
	7,781,437	6,618,428	15,560,801	14,243,199

Geographical Segmentation

The Company operates in three principal geographical areas, Canada (Country of domicile), the United States and internationally, which represents wide distribution.

Sales reported by client location based on origin of purchase (i.e. domicile of contracting party) are as follows.

	For the three months ended March 31		For the six months ended March 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Canada	7,252,885	5,916,879	14,326,435	12,609,884
International	445,841	417,862	871,186	1,194,335
United States	82,711	283,687	363,180	438,980
	7,781,437	6,618,428	15,560,801	14,243,199

Of total revenue for the three months ended March 31, 2015, approximately 38% was derived from three clients (three months ended March 31, 2014 - 17% from one client).

The Company does not currently, or in the ordinary course of business, hold non-current assets outside of its domicile (Canada).

The Company reviews the following current assets and current liabilities at a segment level:

	March 31, 2015		September 30, 2014	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	2,474,931	2,723,074	3,845,199	764,336
Unbilled revenue	618,328	-	1,956,919	335,583
Deferred revenue	71,952	1,034,220	599,460	747,376

13. Related Party Transactions

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at the amounts agreed upon by the parties.

Compensation of Key Management Personnel

The remuneration of key management personnel during the period was as follows:

	For the six months ended	
	March 31	
	2015	2014
	\$	\$
Salaries, short-term benefits and share based compensation	356,538	366,057

14. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for March 31, 2015.